Defense Procurement

Strategic Sourcing & Spend Analysis

DoD Procurement Conference

May 27, 2004

Agenda

DoD-Wide Services Sourcing Program Overview – D. Boyd

GAO Overview of Federal Strategic Sourcing Efforts – C. Kirby

Services Commodity Team Process – T. Essig

Product Commodity Team Process – D. Bowman

Acquisition Domain Spend Data Capture – A. Norris
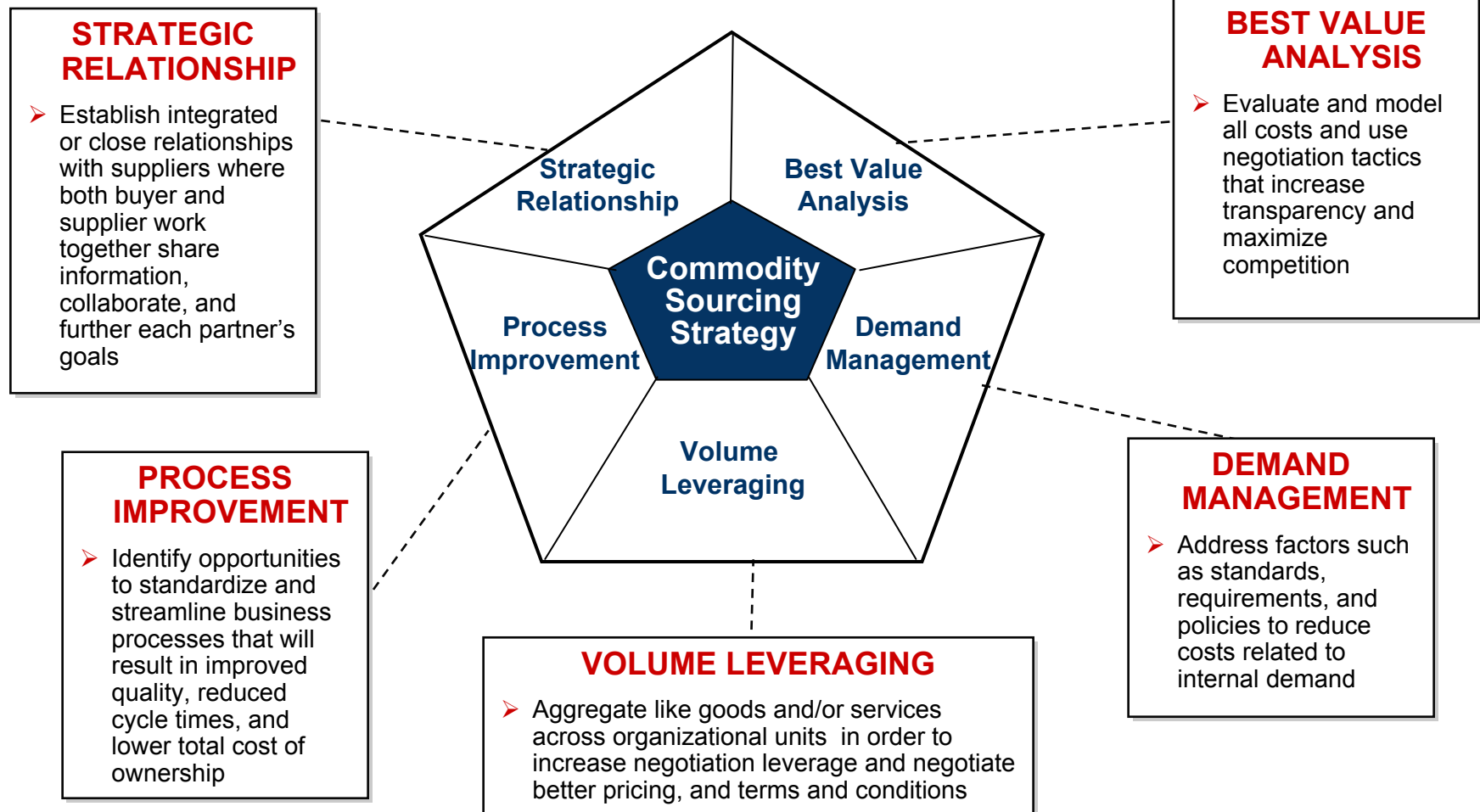
Questions

Currently, DoD is not fully leveraging its opportunities to minimize acquisition costs for services

- Services account for more than half of the DoD's total spend

- DoD is not leveraging cross functional and cross department opportunities in order to minimize total acquisition costs
  - Purchases are not coordinated across the services
  - Many suppliers have multiple contracts with the department, supplying comparable services at different prices
  - The capabilities of small businesses are not being fully leveraged

- Government agencies are facing more scrutiny in utilizing Commercial best practices in strategic sourcing

What is Strategic Sourcing?

STRATEGIC RELATIONSHIP

➢ Establish integrated or close relationships with suppliers where both buyer and supplier work together share information, collaborate, and further each partner's goals

BEST VALUE ANALYSIS

➢ Evaluate and model all costs and use negotiation tactics that increase transparency and maximize competition

PROCESS IMPROVEMENT

➢ Identify opportunities to standardize and streamline business processes that will result in improved quality, reduced cycle times, and lower total cost of ownership

DEMAND MANAGEMENT

➢ Address factors such as standards, requirements, and policies to reduce costs related to internal demand

VOLUME LEVERAGING

➢ Aggregate like goods and/or services across organizational units in order to increase negotiation leverage and negotiate better pricing, and terms and conditions

Strategic Relationship

Best Value Analysis

Commodity Sourcing Strategy

Process Improvement

Demand Management

Volume Leveraging

What Are The Benefits?

- **Enhanced performance**
- **Establishes "win-win" situation for government/contractor**
- **Enhances ability to manage socio-economic goals**
- **Allows for more efficient utilization of contracting officer/specialist resources – less time spent doing routine, repetitive activities**
- **Enhances procurement office status by creating a value-added business management function vice standard "buyer"**
- **Facilitates requirements collection and definition**
- **Increases efficiency of procurement process**
- **Increases customer satisfaction (internal and external)**
- **Increases visibility of funds expenditure**
- **Highly trained acquisition personnel (i.e. true business managers)**
- **Much more …**

Summary – benefits far outweigh implementation costs
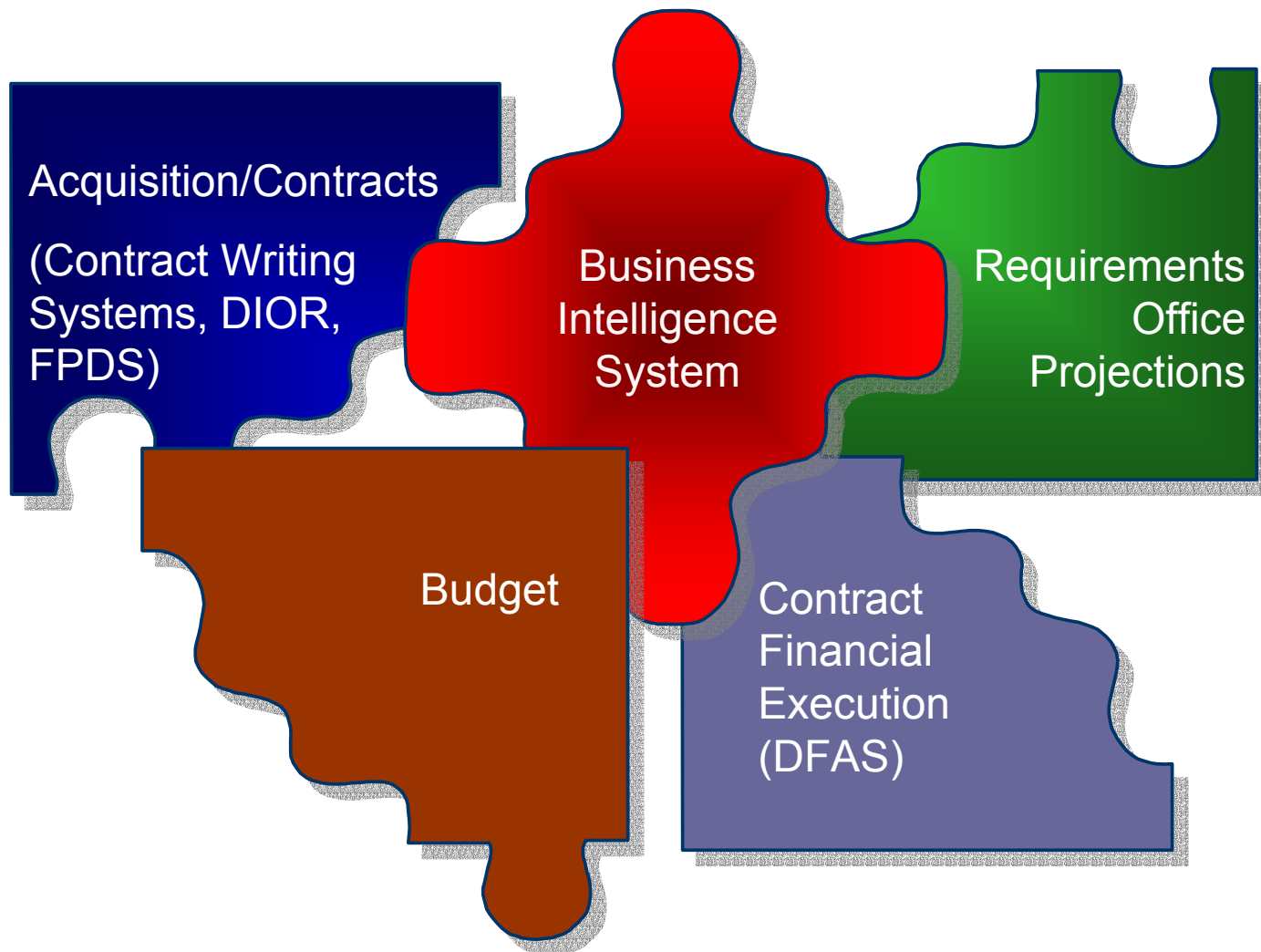
DWSS Objectives

Program Objectives

➢ Develop Department-wide cross-functional acquisition strategies in order to improve Total Cost of Ownership for acquired services

➢ Address improvements in meeting socio-economic goals through the use of strategic sourcing

➢ Leverage commercial best practices in order to streamline and standardize DoD acquisition business processes

➢ Improve overall skills of DoD acquisition staff through the utilization of commercial tools and processes

The ultimate goal of the program is to "provide customers throughout the Department [of Defense with services acquired] in the most efficient and advantageous manner."

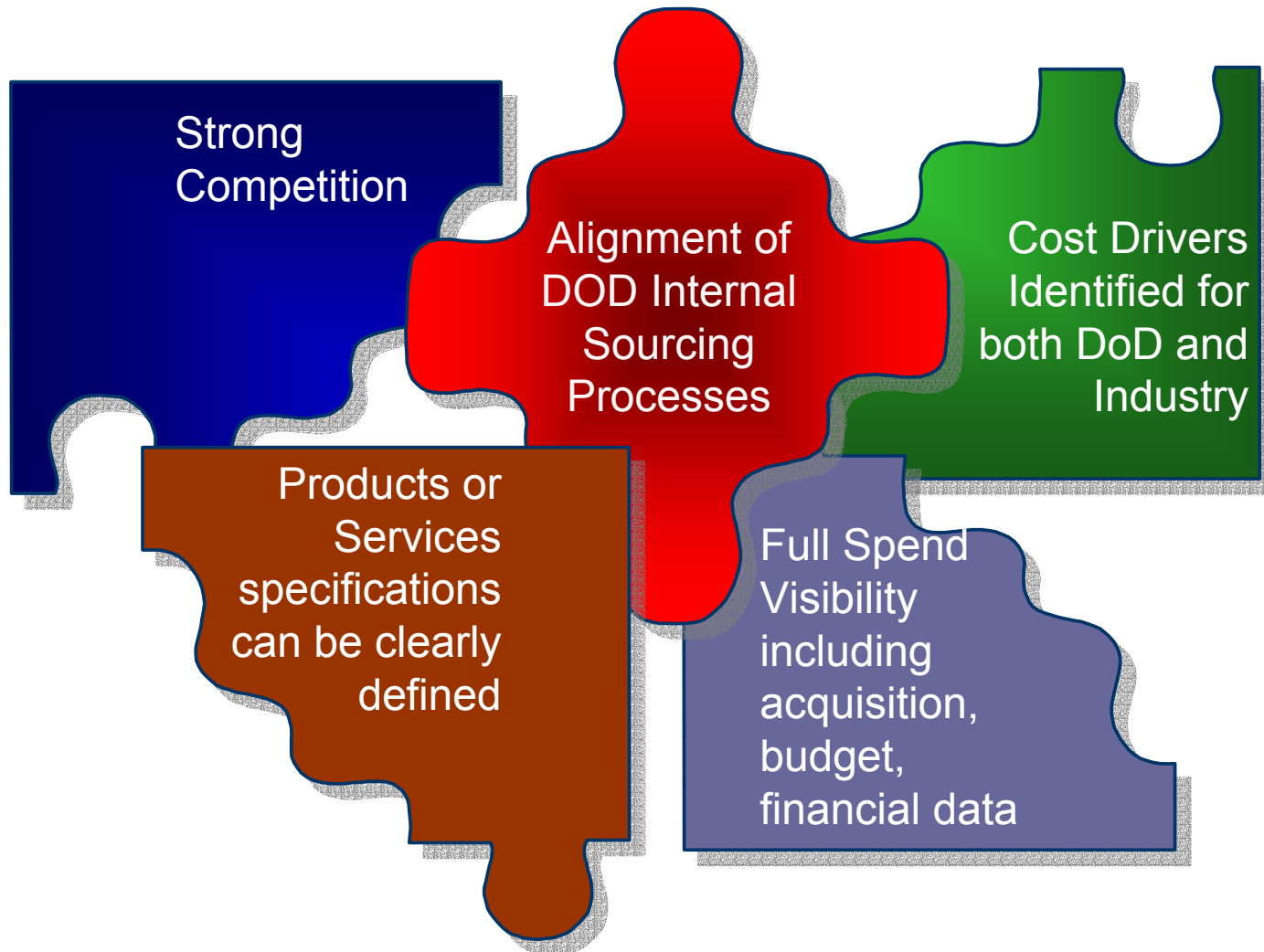"Acquisition of Services Review" Memorandum from Paul Wolfowitz, Deputy Secretary of Defense 2/6/2003

Ideal Strategic Sourcing Information

Acquisition/Contracts

(Contract Writing Systems, DIOR, FPDS)

Business Intelligence System

Requirements Office Projections

Budget

Contract Financial Execution (DFAS)

Success Factors

Strong Competition

Alignment of DOD Internal Sourcing Processes

Cost Drivers Identified for both DoD and Industry

Products or Services specifications can be clearly defined

Full Spend Visibility including acquisition, budget, financial data

Commercial Success Factors

- Standardization of service categories

- Electronic catalogues

- High level of automation – reduced contracting visibility/action

- Mandatory utilization – justice for maverick spenders

- Rationalized vendor base

- Strong senior governance

- Skilled commodity team members conversant in all facets of the commodity

What is the Process?

- **"Ad-hoc" to date** – **IPT and Administrative Services Commodity Team underway**

- **Short Term** – **Develop the process** – **FY04**
    - **Firmly establish the initial commodity teams, IPT and Governance Board each with their own charter**
    - **Commodity teams follow a generic, but extremely detailed, process utilizing commercial best practices**
        - **Concept of Operations document being developed to document the process**
    - **Develop in-house skills necessary to accomplish all facets of the sourcing process**
    - **Develop a thorough communications plan (both internal and external)**

- **Long Term** – **Institutionalize the process and expand to all facets of services** – **FY05 and beyond**
    - **Develop automated processes (i.e. coordinate with Acquisition Domain)**
    - **Implement appropriate business rules**
    - **Establish teams for numerous service categories**

> *The "process" is extremely detailed and extensive involving ROI evaluations on total cost of ownership. The level of analysis goes far beyond any level normally conducted by contracting personnel and requires cyclical review and analysis to maintain peak operating efficiency.*

Phase I Service Commodity Groups

Construction Services

- Architect/Civil Engineering Services
- General/Buildings/Facilities
- Military Structures/Facilities

IT/Automation

- Systems Analysis/Development
- Telecommunications/Networking
- Systems Acquisition Support
- Data/Security Services
- **Miscellaneous/General IT Services**

Facilities

- Facilities Maintenance/ Management
- Purchase/Lease/Rental of Facilities
- Operation of Government Facilities
- Energy/Utilities

Medical/Health Services

- Lab Testing Services
- Medical Services

Equipment Management

- Maintenance/Repair – Defense
- Maintenance/Repair – Other
- Installation – Defense
- Installation – Other
- Lease/Rental – Defense
- Lease/Rental – Other
- Technical Rep. Srvcs – Defense
- Technical Rep. Srvcs – Other
- Quality Control/Insp. – Defense
- Quality Control/Insp. - Other

Natural Resources/Environ.

- Drilling/Exploratory Services
- Environmental Cleanup/Removal
- Misc. Resource & Conservation Svcs.
- Misc. Environmental Services/Support

Prof./Admin. Services

- Program Management
- Engineering/Technical Services.
- **Management/Advisory Services**
- **Administrative Support Services**
- **Miscellaneous Professional Svcs**

Education/Training

- Technical/Scientific/Mgmt. Training
- Educational Services
- Tuition/Fees
- Training Development
- Miscellaneous Education Svcs

Transportation/Travel

- Cargo/Freight/Transport Services
- Personnel Transport/Lodging
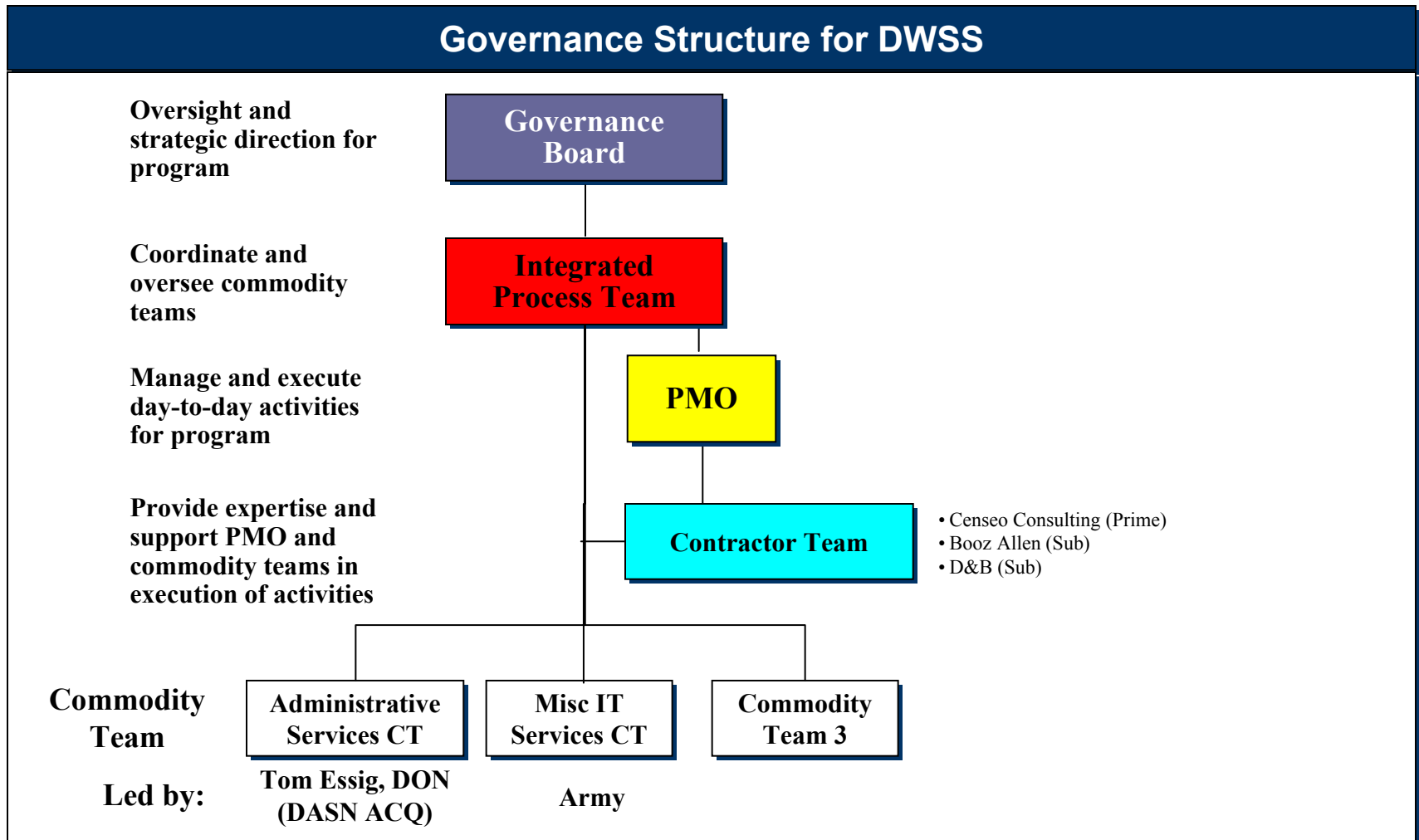- Miscellaneous Travel Services

Special Studies/Analysis

- Environmental/ Agricultural
- General Sciences
- Financial/ Management/ Advisory
- Defense/ Military/ Security
- Miscellaneous Studies

Misc/Other Services

- Social Services
- Salvage Services
- Photo/Mapping/Graphics Svcs

Multi-tiered Governance Structure

Governance Structure for DWSS

Oversight and strategic direction for program → **Governance Board**

Coordinate and oversee commodity teams → **Integrated Process Team**

Manage and execute day-to-day activities for program → **PMO**

Provide expertise and support PMO and commodity teams in execution of activities → **Contractor Team**
- Censeo Consulting (Prime)
- Booz Allen (Sub)
- D&B (Sub)

Commodity Team

| Administrative Services CT | Misc IT Services CT | Commodity Team 3 |

Led by:

Tom Essig, DON (DASN ACQ)   Army

Using Spend Analysis to Take a Strategic Approach to Procurement

DoD Procurement Conference
May 27, 2004

Outline

- Strategic approach to procurement — a best practices perspective
- Spend analysis—the first step in adopting a strategic approach
- Spend analysis best practices—a road map
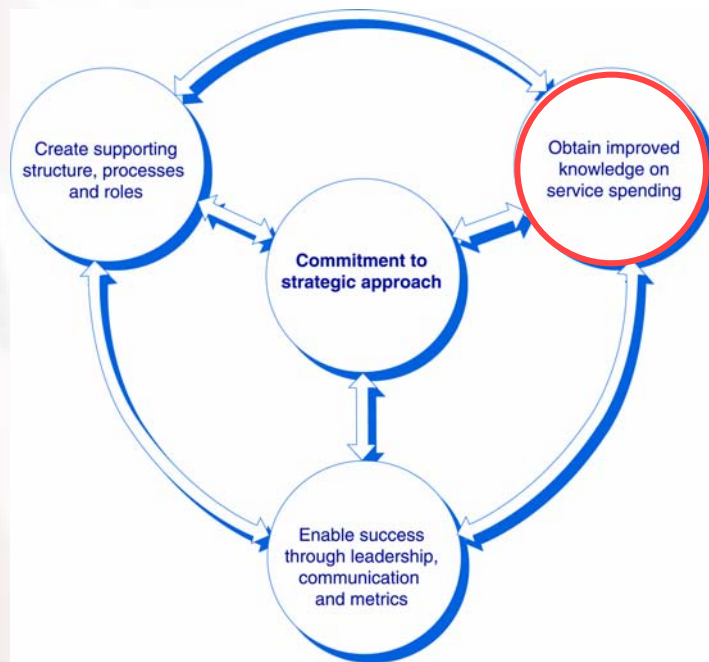- Federal agencies' spend analysis efforts

Strategic Approach to Procurement – a Best Practices Perspective
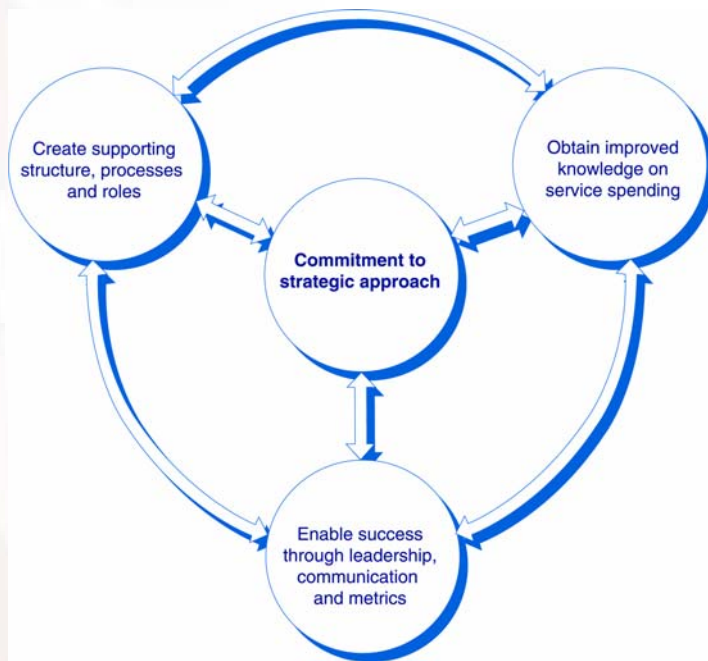
Benefits and Results:

- Clearly pays off in reduced total costs

- Improves supplier performance and agency operations

- Eliminates duplicative sourcing and contract administration

Spend Analysis: the First Step in Adopting a Strategic Approach

Spend analysis best practices overview

- Automation

- Extraction

- Supplemental information

- Organization of data

- Analysis and strategic goals

Spend Analysis Best Practices – a Road Map

Obtain Knowledge

- Data automatically compiled in central repository
- Data covers entire agency
- Data extracted from vendor payment and procurement systems
- Add supplier diversity to data
- Establish uniform commodity codes & supplier names
- Classify spend data by commodity
- Classify suppliers by strategic importance

Use Knowledge

- Top leadership sets goals
- Establish commodity manager and team structure
- Support strategic sourcing projects and estimate savings
- Address supplier diversity goals and objectives
- Monitor compliance with new contracts
- Measure actual savings, other benefits, communicate results

Federal Overview

- Areas GAO addressed in completed work
    - DOD services acquisitions
    - DOD procurement of commercial satellite services
    - Postal Service supply management initiatives

- Areas GAO addressing in ongoing work
    - Department of Veterans Affairs
    - Department of Health and Human Services
    - Department of Agriculture
    - Department of Homeland Security

Related GAO Reports
www.gao.gov

Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition, GAO-03-935 (Sep. 10, 2003)

Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings, GAO-03-661 (Jun. 9, 2003)

Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services, GAO-02-230 (Jan. 18, 2002)

Satellite Communications: Strategic Approach Needed for DOD's Procurement of Commercial Satellite Bandwidth, GAO-04-206 (Dec. 10, 2003)

Postal Service: Progress in Implementing Supply Chain Management Initiatives, GAO-04-540 (anticipated, May 2004).

Contract Management: Taking a Strategic Approach to Improving Services Acquisition, GAO-02-499T (Mar. 7, 2002)

Contract Management: Trends and Challenges in Acquiring Services, GAO-01-753T (May 22, 2001)

Contact Info

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Services Commodity Team Process

Thomas W. Essig

Director, Program Analysis and Business Transformation

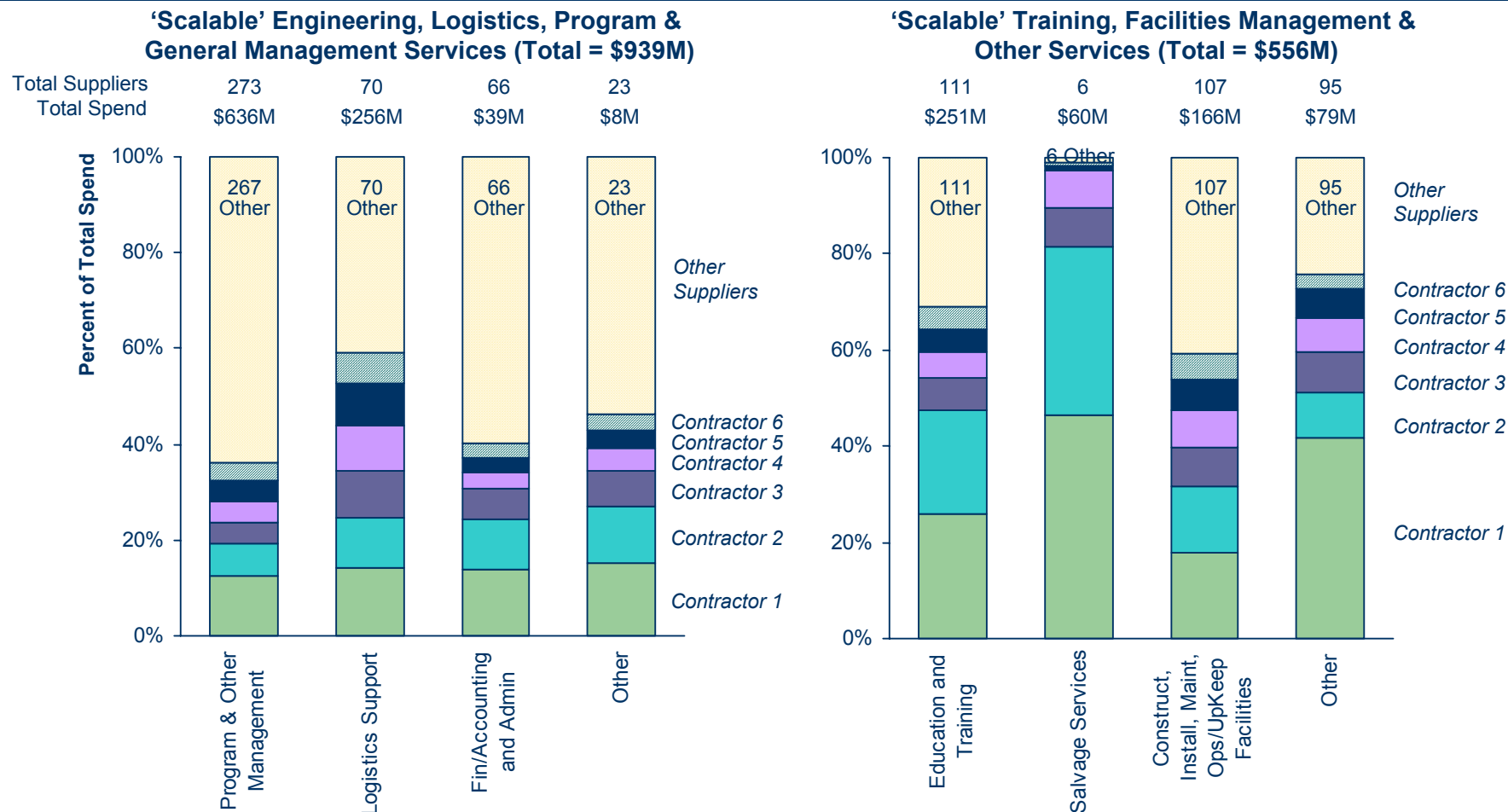Deputy Assistant Secretary of the Navy (Acquisition Management)

Topics

- DON Spend Analysis

- Services Strategic Sourcing Pilot

DON Spend Analysis: The supply base for many "scalable" services is highly fragmented

'Scalable' Engineering, Logistics, Program & General Management Services (Total = $939M)

Total Suppliers	273	70	66	23
Total Spend	$636M	$256M	$39M	$8M

'Scalable' Training, Facilities Management & Other Services (Total = $556M)

Total Suppliers	111	6	107	95
Total Spend	$251M	$60M	$166M	$79M

Note: Total services is equal to $4.49B {spending in Engineering, Logistics, Program & General Management Services ($3.86B) plus Training, Facilities Management and Other Services($.63B))

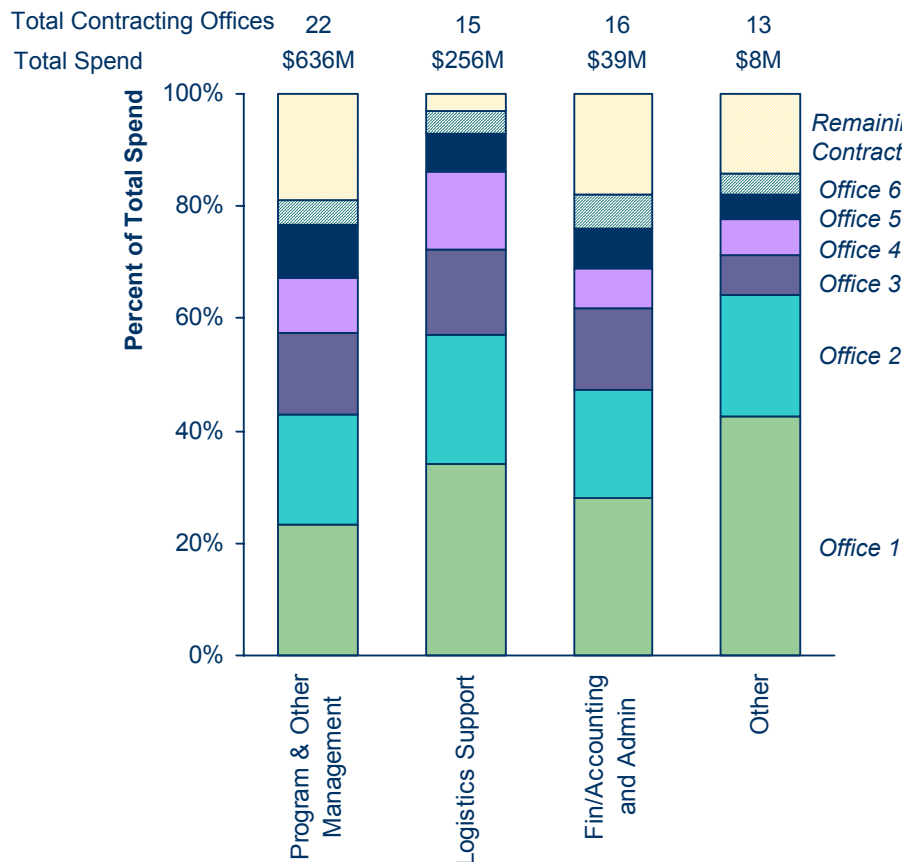This page details the $1.5B of spending within these two categories that would lend to scale savings

Listing of major contractors in each service category found in Appendix

Source: NAVSEA, NAVAIR, SPAWAR, MARCOR Total FY2002 DD350 Data; Booz Allen Hamilton Analysis
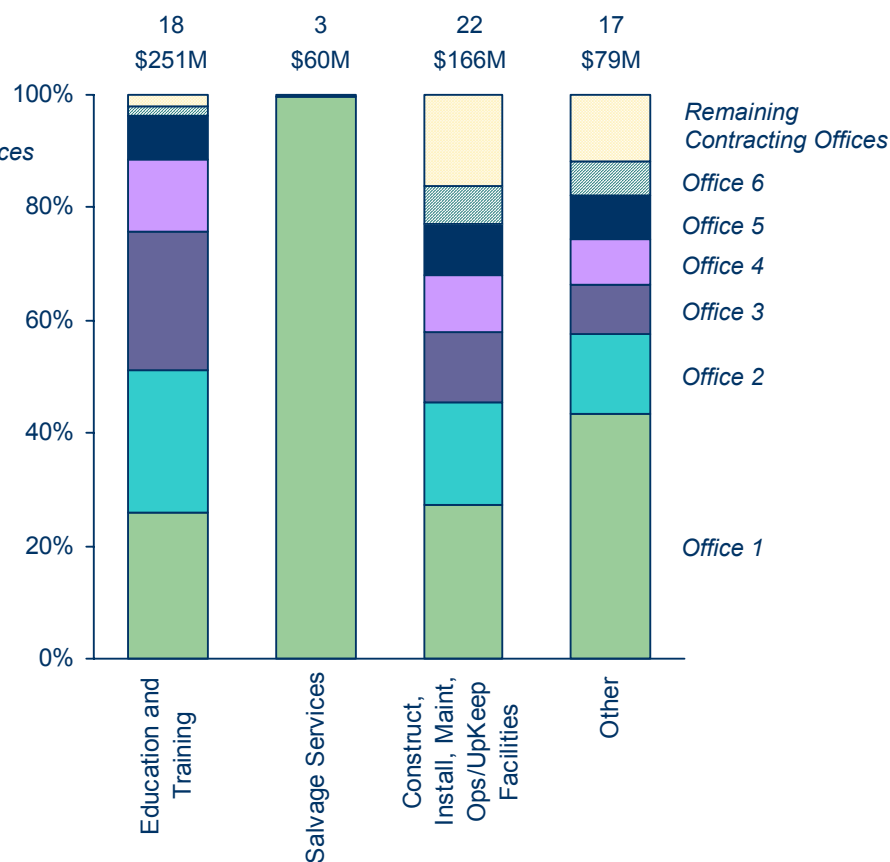
There are at least 10 separate contracting offices among the four DON SYSCOMS "letting" contracts

'Scalable' Engineering, Logistics, Program & General Management Services (Total = $939M)

'Scalable' Training, Facilities Management & Other Services (Total = $556M)

Total Contracting Offices	22	15	16	13	18	3	22	17
Total Spend	$636M	$256M	$39M	$8M	$251M	$60M	$166M	$79M

Legend (left chart): Remaining Contracting Offices, Office 6, Office 5, Office 4, Office 3, Office 2, Office 1

Categories (left): Program & Other Management; Logistics Support; Fin/Accounting and Admin; Other

Legend (right chart): Remaining Contracting Offices, Office 6, Office 5, Office 4, Office 3, Office 2, Office 1

Categories (right): Education and Training; Salvage Services; Construct, Install, Maint, Ops/UpKeep Facilities; Other

Note: *Total services is equal to $4.49B {spending in Engineering, Logistics, Program & General Management Services ($3.86B) plus Training, Facilities Management and Other Services($.63B)}*

This page details the $1.5B of spending within these two categories that would lend to scale savings

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DON Spend Analysis: Factors that inhibit strategic sourcing

- Multiple problems with DD350 System
  - Coding and data entry errors
  - Insufficient detail
  - Incomplete data
- Socio-economic considerations
- Geographic dispersion of work
- No objective measure of savings
- Existing SYSCOM level consolidated contracts
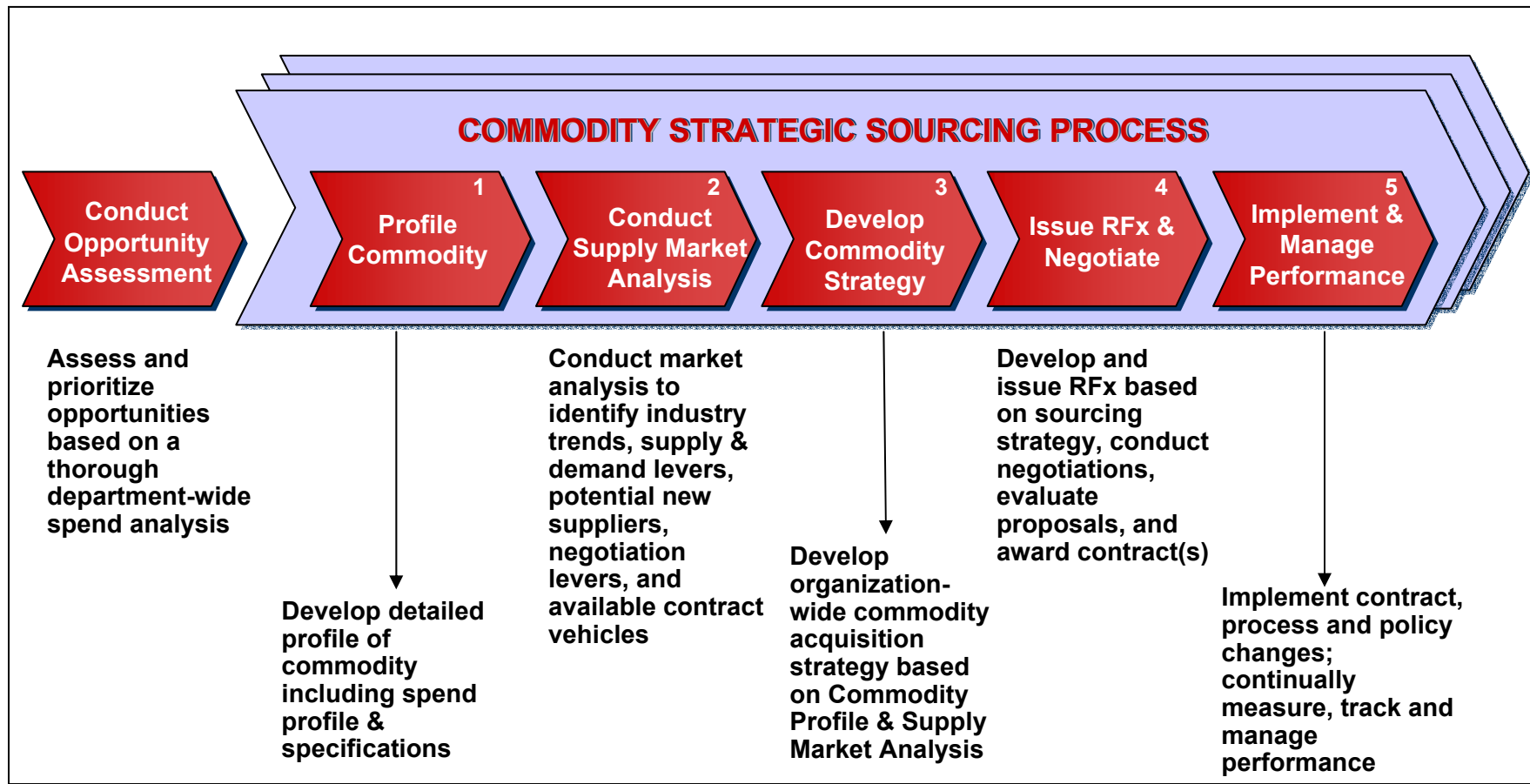- Organizational/cultural differences

Topics

- DON Spend Analysis

- Services Strategic Sourcing Pilot

The high-level strategic sourcing process for services is similar to that of goods…

STRATEGIC SOURCING PROCESS – HIGH LEVEL OVERVIEW

COMMODITY STRATEGIC SOURCING PROCESS

Conduct Opportunity Assessment

1 Profile Commodity

2 Conduct Supply Market Analysis

3 Develop Commodity Strategy

4 Issue RFx & Negotiate

5 Implement & Manage Performance

Assess and prioritize opportunities based on a thorough department-wide spend analysis

Develop detailed profile of commodity including spend profile & specifications

Conduct market analysis to identify industry trends, supply & demand levers, potential new suppliers, negotiation levers, and available contract vehicles

Develop organization-wide commodity acquisition strategy based on Commodity Profile & Supply Market Analysis

Develop and issue RFx based on sourcing strategy, conduct negotiations, evaluate proposals, and award contract(s)

Implement contract, process and policy changes; continually measure, track and manage performance
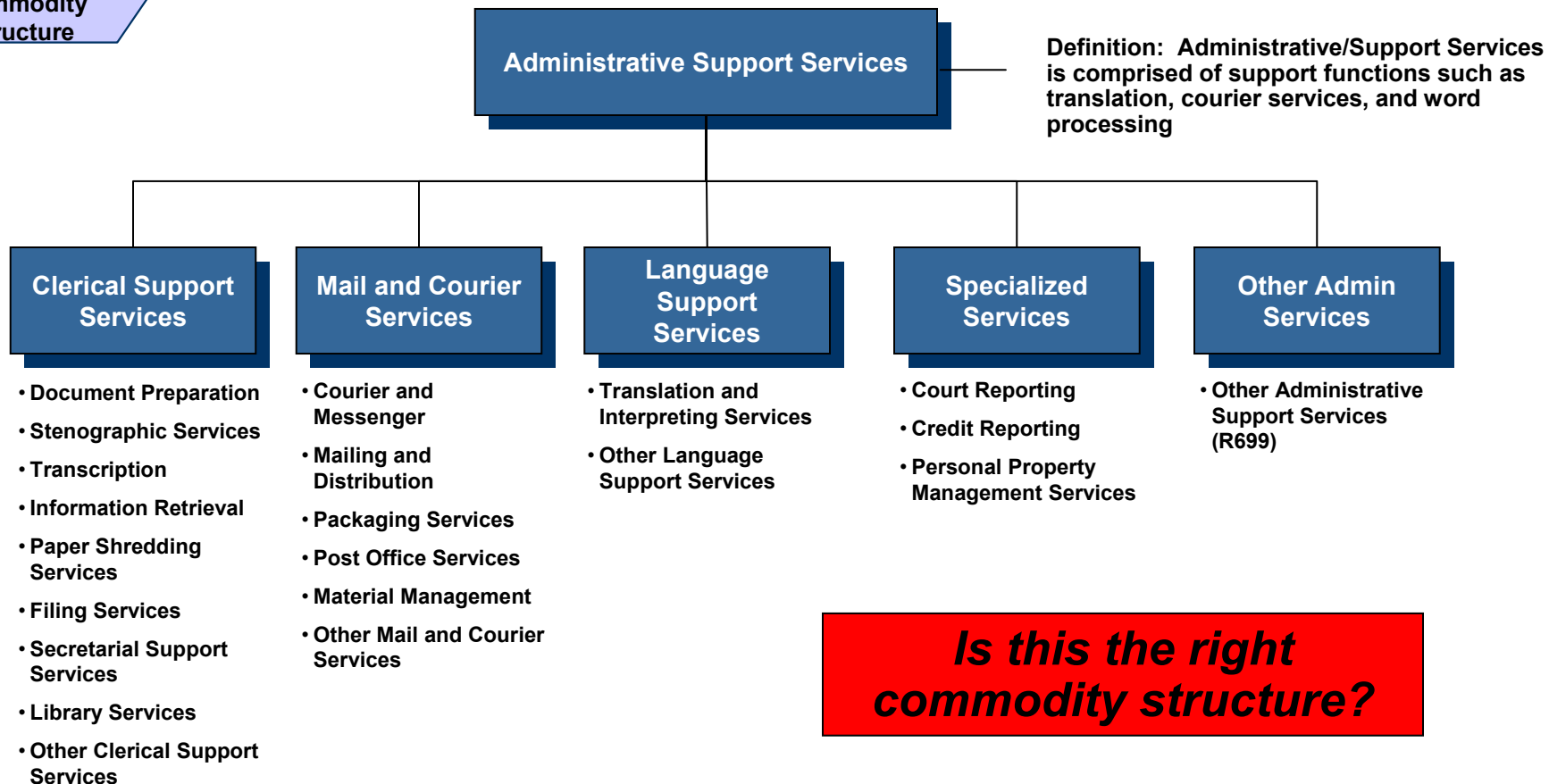
Proprietary Information, Censeo Consulting Group.

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As an initial step of the Spend Analysis, a preliminary Commodity Structure has been developed for Administrative Support services

1

Define Subcategory Scope and Commodity Structure

Preliminary Administrative Services Commodity Structure

Administrative Support Services

Definition: Administrative/Support Services is comprised of support functions such as translation, courier services, and word processing

Clerical Support Services

- Document Preparation
- Stenographic Services
- Transcription
- Information Retrieval
- Paper Shredding Services
- Filing Services
- Secretarial Support Services
- Library Services
- Other Clerical Support Services

Mail and Courier Services

- Courier and Messenger
- Mailing and Distribution
- Packaging Services
- Post Office Services
- Material Management
- Other Mail and Courier Services

Language Support Services

- Translation and Interpreting Services
- Other Language Support Services

Specialized Services

- Court Reporting
- Credit Reporting
- Personal Property Management Services

Other Admin Services

- Other Administrative Support Services (R699)

Is this the right commodity structure?

Participation and collaboration with customers from the outset is critical

1 Profile Commodity	2 Conduct Supply Market Analysis	3 Develop Commodity Strategy	4 Issue RFx & Negotiate	5 Implement & Manage Performance

Participate

- Place SMEs and stakeholders on the core sourcing team
- If possible, have a stakeholder lead the team
- Identify opportunities to establish credibility with the users in purchasing services
- Bring SMEs into the procurement organization to act as buyers/ commodity managers for services

Educate

- Educate stakeholders on the Strategic Sourcing process
- Ensure procurement staff is educated and knowledgeable on the Services under consideration
- Educate potential suppliers on the scope and specifications that they will be bidding on

Co-locate (if necessary)

- Place procurement professionals within organizations to foster communication and understanding of service requirements
- Bring SMEs into the procurement organization to act as buyers/ commodity managers for services

For certain spend groups, analyzing the current Total Ownership Cost ("TOC") can reveal significant improvement opportunities

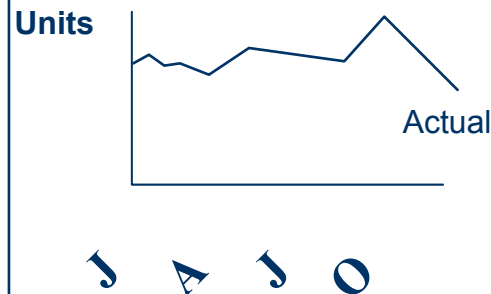| 1 Profile Commodity	2 Conduct Supply Market Analysis	3 Develop Commodity Strategy	4 Issue RFx & Negotiate	5 Implement & Manage Performance

TOTAL COST OF OWNERSHIP (TCO) ELEMENTS

Supplier price: 100%

Transportation, Customs, Insurance, Taxes, Receiving

Landed cost: 125%

Cost of capital, Inspection, Handling, Storage, Warranty, Field failures, Disposal

+ Carrying cost: 150%

R&D, Supplier management, Manufacturing support, Technology Access, Opportunity cost

+ Administrative cost: 200%
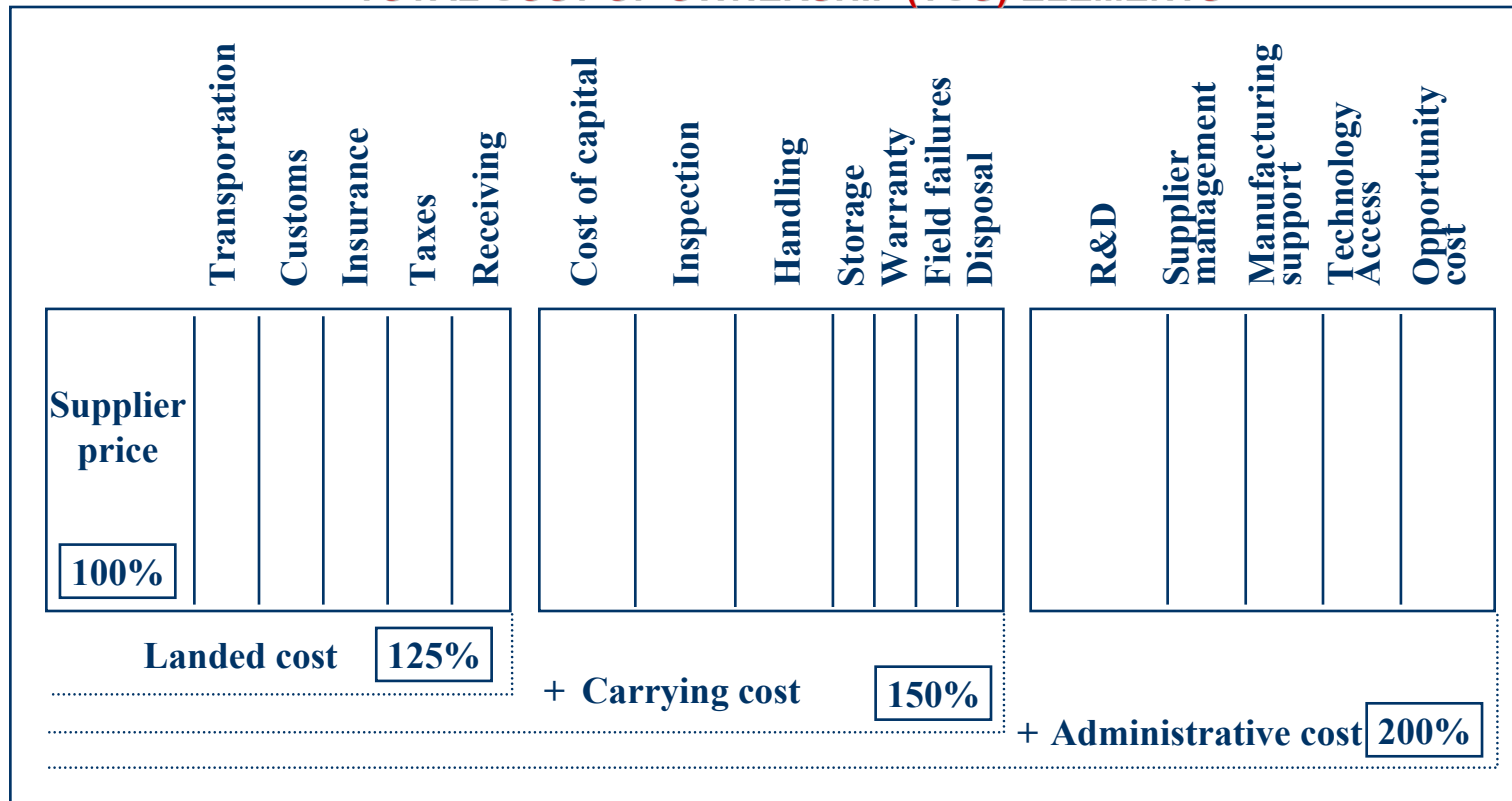
- **The applicability of various TOC elements varies greatly by commodity**
- **Internal procurement processes and practices also impact TOC elements**

Proprietary Information, Censeo Consulting Group.

At the conclusion of Step 1, the team should have a detailed understanding of what we buy from whom with emphasis on detailed specifications and requirements

1 Profile Commodity	2 Conduct Supply Market Analysis	3 Develop Commodity Strategy	4 Issue RFx & Negotiate	5 Implement & Manage Performance

Overall Volumes – Historical and Forecast

Units

Actual

J A J O

Suppliers and Locations

Plant 1

100 units

Supplier A

10,000 units

200 units

Plant 2   2000 units   Supplier B
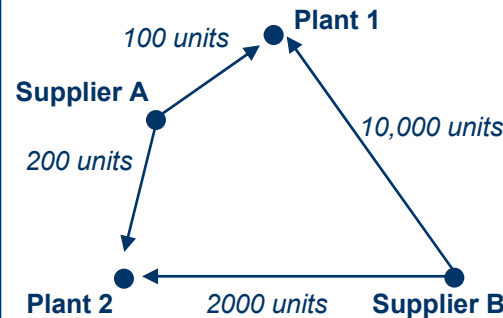
Pricing

- Applicable quantity/timeframe
- Formulas
- Scope of products/services
- Assumptions
- Contracts

Supplier Performance

- Quality
- Delivery
- Value-added

Process Requirements

- Day-to-day procurement
- Logistics/ transportation
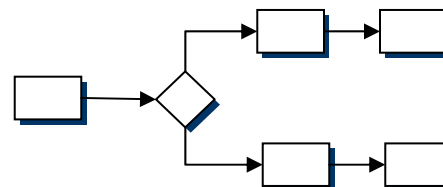
Specifications

- Locations
- Skill Set
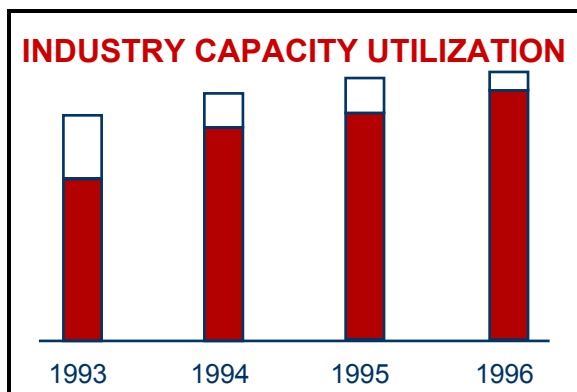- Security Requirements
- Volume
- Socio-Economic

Step 2, Conduct Supply Market Analysis, seeks to develop a thorough understanding of the supply market and suppliers' business issues

| 1 Profile Commodity | 2 Conduct Supply Market Analysis | 3 Develop Commodity Strategy | 4 Issue RFx & Negotiate | 5 Implement & Manage Performance |

MARKET SIZE PROFILE

Industry Sector:

Value ($ m) :

Total Supplier Base:

Number of Supplies:
> $ Xm
> $ XX m

Supplier 4 18% £ -m
Supplier 5 11% $ - m
Supplier 3 8% $ - m
Supplier 8 6%
Supplier 4% $ - m
Supplier 2 19% $ - m
Supplier 6 6% $ - m
Supplier 1 28% $ - m

Market Share by Supplier

MARKET FINANCIAL PERFORMANCE

Year	1998	1999	2000	2001	2002	2003	2004 (e)	2005 (e)	2006 (e)
Market Size ($m)									
(Volume)									
Net Margin									
No. of Suppliers									

Top 5 Suppliers (and market share)
Supplier : $____m   Supplier : $____m
Supplier : $____m   Supplier : $____m
Supplier : $____m ____%   ____%

Geographic Restrictions:

Potential Change Expectations in market place:

Key Industry Associations:

Illustration: A4.2.1/1

SUPPLIER CAPABILITIES

• Expertise Area
• Match with Customer Requirements
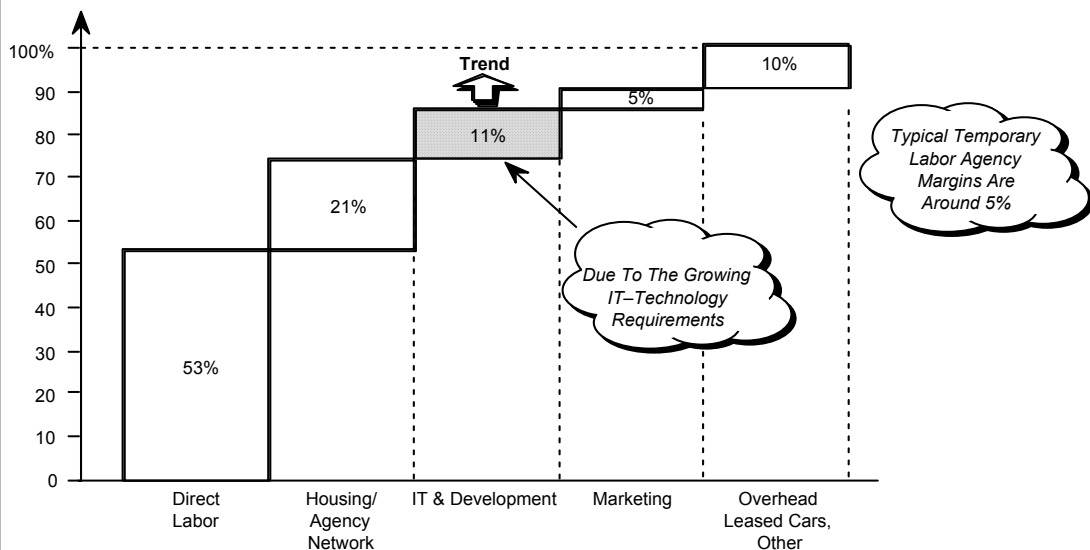• Certifications
• Contracting Vehicles
• Socio-Economic Status…

INDUSTRY CAPACITY UTILIZATION

1993 1994 1995 1996

SUMMARY OF SUPPLY MARKET
Trends & Drivers

Trends: _ _ _ _ _ _ _ _ _ _ _ _
_ _ _ _ _ _ _ _ _ _ _ _
_ _ _ _ _ _ _ _ _ _ _ _

Drivers: _ _ _ _ _ _ _ _ _ _ _
_ _ _ _ _ _ _ _ _ _ _ _
_ _ _ _ _ _ _ _ _ _ _ _

Developing a detailed cost structure and cost drivers for suppliers can aid in identifying possible negotiation levers

1	2	3	4	5
Profile Commodity	Conduct Supply Market Analysis	Develop Commodity Strategy	Issue RFx & Negotiate	Implement & Manage Performance

EXAMPLE

TEMP SERVICES COST STRUCTURE

Trend

100% — — — — — — — — — — — — — —

10% (Overhead Leased Cars, Other)

5% (Marketing)

11% (IT & Development)

21% (Housing/Agency Network)

53% (Direct Labor)

Due To The Growing IT–Technology Requirements

Typical Temporary Labor Agency Margins Are Around 5%

X-axis: Direct Labor | Housing/Agency Network | IT & Development | Marketing | Overhead Leased Cars, Other

EXAMPLE INSIGHT

The most important drivers of cost for temp services firms are volumes and customer specifications

DRIVER	DESCRIPTION
Scale/ Utilization	• Size of buy (= number of temp days contracted) drives markup percentage • Duration of buy (= number of days contracted per temp worker) drives markup percentage • Scale of supplier within the category of temps drives recruiting cost and overhead costs (sales, general administration, systems, etc.)
Productivity	• Labor productivity—knowledge of Company XYZ's processes and systems • Managing efficiency—managing/admin./coaching cost per temp worker
Customer Requirements	• Service level (order response time, quality failures, etc.) • Temp work specifications (people spec, prescreens, degree of specialization)
Automation/ IT-systems	• Degree of automation • IT-development/adaptations to client needs (specs) • Geographic reach of the agency network
Labor Rates	• Local differences in labor rates due to regulatory environment • Wide spread temp agency net
Geographic Reach	• Geographic reach of the agency network is differentiator among key players • Network infrastructure, people

Frameworks are useful for providing guidance for developing supply market understanding and uncovering areas of opportunity
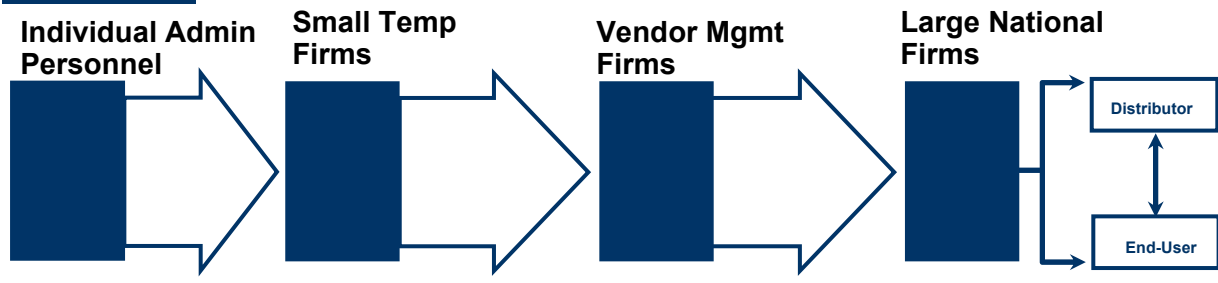

PORTER'S 5-FORCES ANALYSIS

- Threat of New Entrants
- Supplier Bargaining Power
- Market Internal Competition
- Buyer Bargaining Power
- Pressure from Substitutes
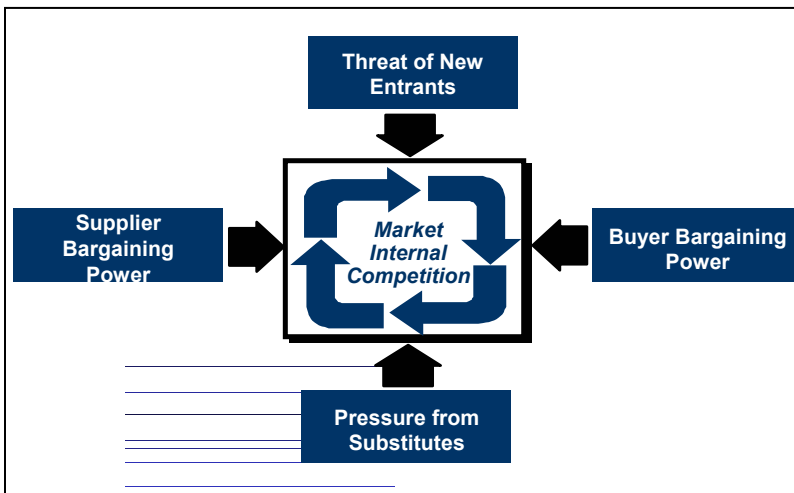
- **Framework for understanding what drives competitive behavior in a supply market**

- **Helps us understand whether the "balance of power" rests with suppliers or with buyers**

- **Analysis of these forces will help us predict supplier's receptivity for various sourcing approaches**

SUPPLY MARKET VALUE CHAIN ANALYSIS

EXAMPLE

Individual Admin Personnel → Small Temp Firms → Vendor Mgmt Firms → Large National Firms → Distributor / End-User

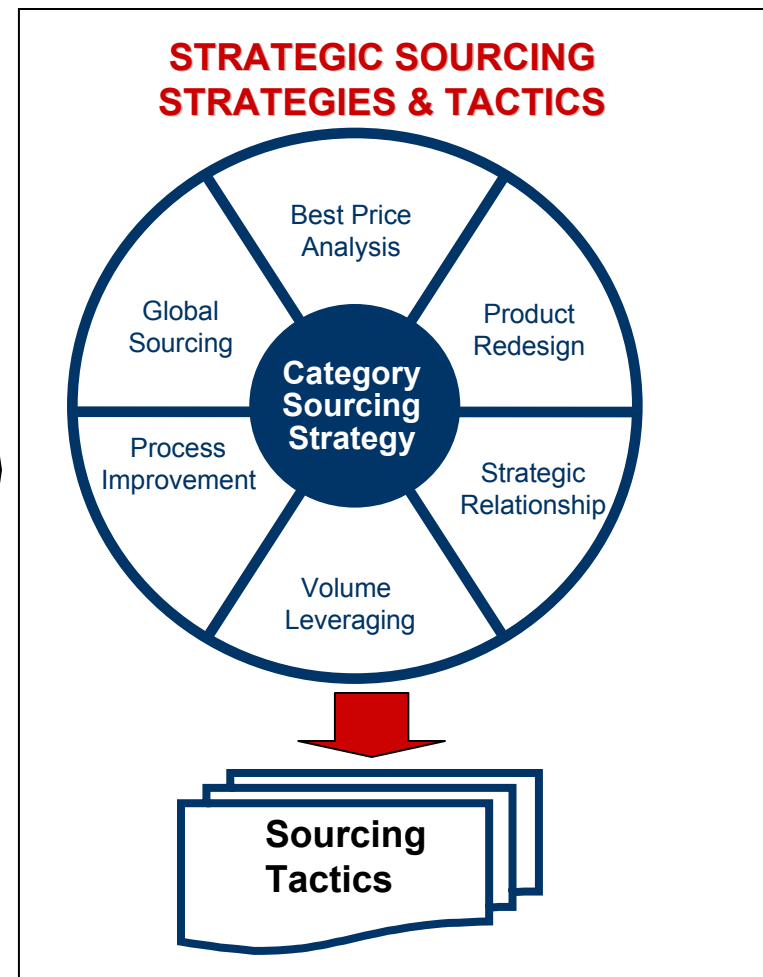- **Value chain analysis may reveal opportunities for sourcing at a different position within the value chain**

Various strategies beyond basic spend consolidation must be evaluated in order to realize the full benefit of strategic sourcing

COMMODITY POSITIONING MATRIX

	Low ← Buyer Influence on Supply Market → High
Strategic Category — Risk Management	**Leverage Category** — Competitive Advantage
Routine Category — Purchasing Efficiency	**Opportunistic Category** — Consolidation

Commodity Business/Mission Criticality (High / Low)
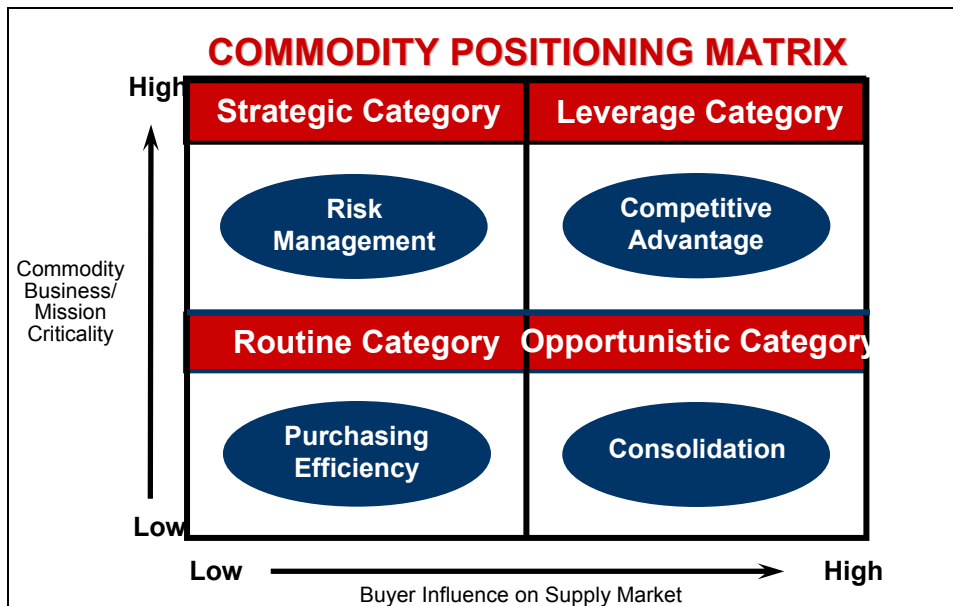
OTHER BUYER-SPECIFIC FACTORS

- Supplier concentration/fragmentation
- Variability in specs/requirements
- Pricing spread among existing contracts

STRATEGIC SOURCING STRATEGIES & TACTICS

Category Sourcing Strategy:
- Best Price Analysis
- Product Redesign
- Strategic Relationship
- Volume Leveraging
- Process Improvement
- Global Sourcing

Sourcing Tactics

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Proprietary Information, Censeo Consulting Group.

Final Comments

- Centralized Sourcing, Decentralized Execution
- Web-enabled

- "I am challenging DoD's acquisition community…to take advantage of this opportunity to initiate dramatic improvements to the procurement process….I request you establish a concurrent effort in your respective organizations and interact with our task force as we generate value-added changes to the rules and our processes."

Mr. Michael W. Wynne
Principal Deputy Under Secretary (AT&L)
Feb 19, 2003

What is e-FSC?
TRT: 2:59

Final Comments

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- Web-enabled

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Mr. Michael W. Wynne
Principal Deputy Under Secretary (AT&L)
Feb 19, 2003

Headquarters U.S.A.F.

Integrity - Service - Excellence

DoD Procurement Conference

Commodity Councils 101

Dan Bowman

Chief, Procurement Transformation Division

Deputy Assistant Secretary (Contracting)

27 May 2004

U.S. AIR FORCE

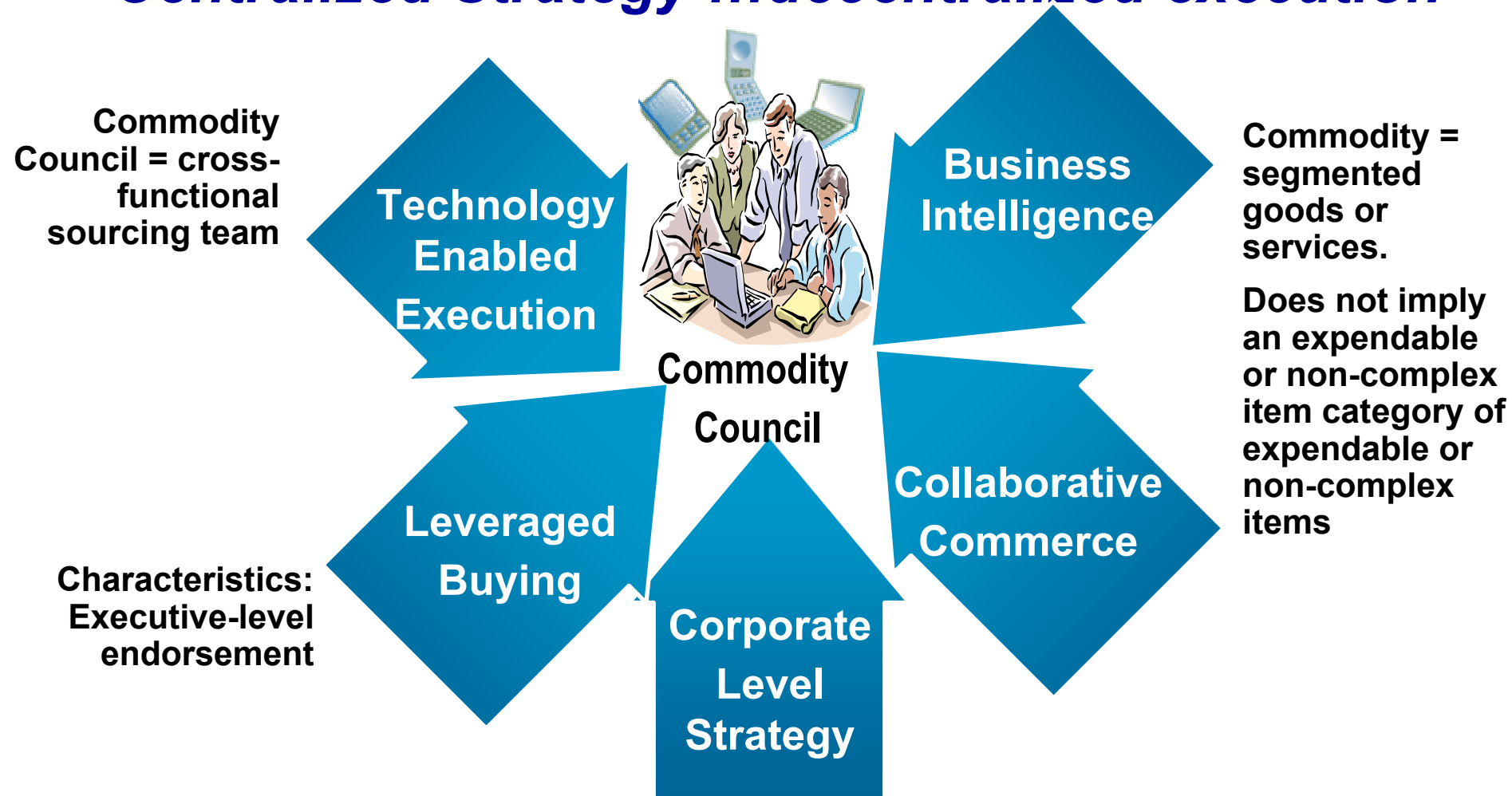# Transformation Begins with Changing Behavior

Strategic

Activities

Market knowledge

Supply base management

Commodity strategy

Risk management

Sourcing strategy

Supplier capability assessment

Strategic negotiation

Supplier selection

Supplier development

Establish performance metrics

Suppler performance evaluation/reporting

Commercial (tactical) negotiation

Order processing

Tactical

From transactional

to strategically focused

Intro to Commodity Councils

Centralized Strategy …decentralized execution

Commodity Council = cross-functional sourcing team

Technology Enabled Execution

Business Intelligence

Commodity = segmented goods or services.

Does not imply an expendable or non-complex item category of expendable or non-complex items

Commodity Council

Leveraged Buying

Collaborative Commerce

Characteristics: Executive-level endorsement

Corporate Level Strategy

- Develop strategies for the Air Force at the Enterprise Level
  - Establish socio-economic strategy
  - Establish commodity support strategy
  - Establish business rules
- Demonstrate measurable reduced acquisition cost
- Ensure alignment between Air Force policy and commodity strategy
- Ensure CC product agreements comply with standards set for the enterprise
- Incentivize CC strategy compliance
- Achieve stakeholder buy-in and utilization of CC strategy
- Fulfill commodity user needs
- Rationalize the vendor base to obtain top performing vendors, highest quality products, at the best value for each commodity category
- Reduce the number of redundant contracts per vendor

Commodity Council Process Overview

Each Commodity Council will have adequate cross-functional representation and will utilize a standardized process

Commodity Council Process

| Review Current Strategy | → | Evaluate / Assess Current Market | → | Forecast Future Demands | → | Create Future Strategy |

Key Stakeholders

| Monitor and Continuously Improve | ← | Rollout Strategy | ← | Establish Contractual Instruments | ← | Approve Strategy |

U.S. AIR FORCE

Deliverables

- **Demand Plan**
- **Cost Estimate**
- **Approved Spend Plan**

- Advance forecasting to get in <u>FRONT</u> of AF-wide requirements

```
Review          Evaluate / Assess        Forecast              Create
Current    →        Current        →      Future       →       Future
Strategy          Market                 Demands              Strategy
```

Key Stakeholders

```
Monitor and                          Establish
Continuously  ←   Rollout    ←      Contractual    ←    Approve
Improve          Strategy          Instruments          Strategy
```

Deliverables

- **Commodity Acquisition Management Plan**

- AF-wide commodity strategy – Decentralized execution

Small Business Strategy

- **Review Current SB Participation**
- **Address SB at each stage**

FY 03: First Commodity Council

- Information Technology Commodity Council (ITCC) – 2003 EOY Buy

  - Image Consolidation

  - Configuration Simplification – 1 AF Desktop Configuration per buy
    - 2.6 GHz, P4, 512 MB RAM, 80 GB HD, CD Burner, KB w/CAC reader built in

  - $20M from 6 MAJCOMs pooled to buy 29,154 desktops instead of 17,360 that would have been purchased individually
    - New leveraged buy price = $648.00 (instead of $1129.57)

  - Current ITCC efforts (spirals) will create strategy to acquire
    - Printers/Scanners/Faxes (Digital Printing and Imaging)

" the Air Force bought computers at a 30 percent discount by buying in quantity…And it's a strategy that we plan to use more" John Gilligan AF CIO

- ## AF Medical Services CC (Kick off 16 Mar 04)
  - AFMC/SG and AFMLO are leading effort to stand up AFMS CC for professional services, clinical support services, facilities and mnx support, and contingency services
  - AFPEO/CM advising CC stand-up process
  - Center of Excellence at WPAFB
  - SAF/AQC and AFMC/SG to be Commodity Strategy Officials (CSOs)
- ## First AFMSCC spirals
  1. Nursing services
  2. Utilization Management Services
  3. Primary Care Optimization
  4. Medical Administration

Future Councils (cont'd)

- ## Force Protection CC (Kickoff March 4, 2004)
  - Demobilization of Army personnel currently securing AF gates and visitor centers (vehicle inspection)
  - Other potential strategy spirals include armored vehicles and body armor
  - AF/XOF, AFPEO/CM, AQC and AETC/LGC forming FPCC
  - Center of Excellence and FPCC at Lackland AFB
  - AF/XOF and SAF/AQC to be CSOs

- ## Office Supplies CC
  - Currently conducting spend analysis to determine potential spirals
  - Center of Excellence tentatively at Wright-Patt AFB, OH

Future Councils (cont'd)

- ## AFMC Purchasing & Supply Chain Mgmt Pathfinders
  - Each ALC has identified 1 'pathfinder' proof of concept commodity council
    - Landing gear/tires/brakes (Ogden); Aircraft Accessories (Ok City); Support Equip (Warner-Robins)
  - 5 other councils to be formed – 8 Product Groups will 86% of AFMC spend

Commodity Group	# Supplier CAGEs	# NIINs	# Contracts	# Of Contract Actions	Total Contract Spend	% Of Spend
Aircraft Engines	198	2,452	1,066	3,067	$4,081,653,689	38.2%
** Aircraft Accessories	369	2,888	1,561	2,213	$808,865,751	7.6%
Aircraft Structural	217	2,008	811	1,171	$542,980,071	5.1%
Electronics & Comm	753	8,719	3,246	5,525	$1,629,478,763	15.3%
Secondary Power Sys	29	134	108	123	$386,215,933	3.6%
Instruments	526	2,277	1,694	2,156	$545,389,883	5.1%
**Landing Gear	134	1,024	917	1,158	$540,576,629	5.1%
** Spt Eqt-Grd Serv/Trans	419	1,668	425	546	$602,949,884	5.6%
Totals		21,170	9,828	15,959	$9,138,146,603	85.6%

Air Force Contracting – Expeditionary – Agile – Innovative

OO-ALC Landing Gear Pathfinder

- **Industry Day held 23 Jan 03**
  - 39 companies attended (24 SB)
- **Two RFPs were issued**
  - Small business set-aside (10 proposals received)
  - Non set-aside
- **Results:**
  - 7 awards to small business, Feb 04
    - 24 NSNs
    - $18M (2 years) 3 year option unpriced
  - 1 award to foreign, Mar 04
    - 13 NSNs
    - $11M (2 years) 3 year option unpriced

Acquisition Spend Analysis Pilot Overview

Anna Norris
Booz Allen & Hamilton

Agenda

- Key Technical Drivers

- Acquisition Spend Analysis Pilot Introduction

- Duration and Participants

- Pilot Architecture

- Potential Business Value

- Net-Centric Tenets

- Spend Data Elements

- Conclusion

  – Impact of Effective Spend Data Management in Strategic Sourcing Program

'Net-Centricity' is the term for the Department's vision for supporting Network Centric Warfare using information advantage as its basis

● **Net-Centricity (noun):** The paradigm for using and providing discoverable information and services; building or enhancing capabilities through the integration of networked services, and actively sharing and collaborating regardless of time and place.

● **Net-Centric (adjective):** Relating to or representing the attributes of Net-Centricity.

Combined with demands of modern warfighting, the changing face of technology is reshaping the Defense industry and requiring a new level of innovation and <u>speed to capability</u>

- Applications need to be developed more quickly and at lower cost and risk

- Applications need to be "born joint"

- Applications must be able to leverage all available information – bandwidth constraints must recede

- The cost and risk of traditional System Integration activities must cease to be a constraint
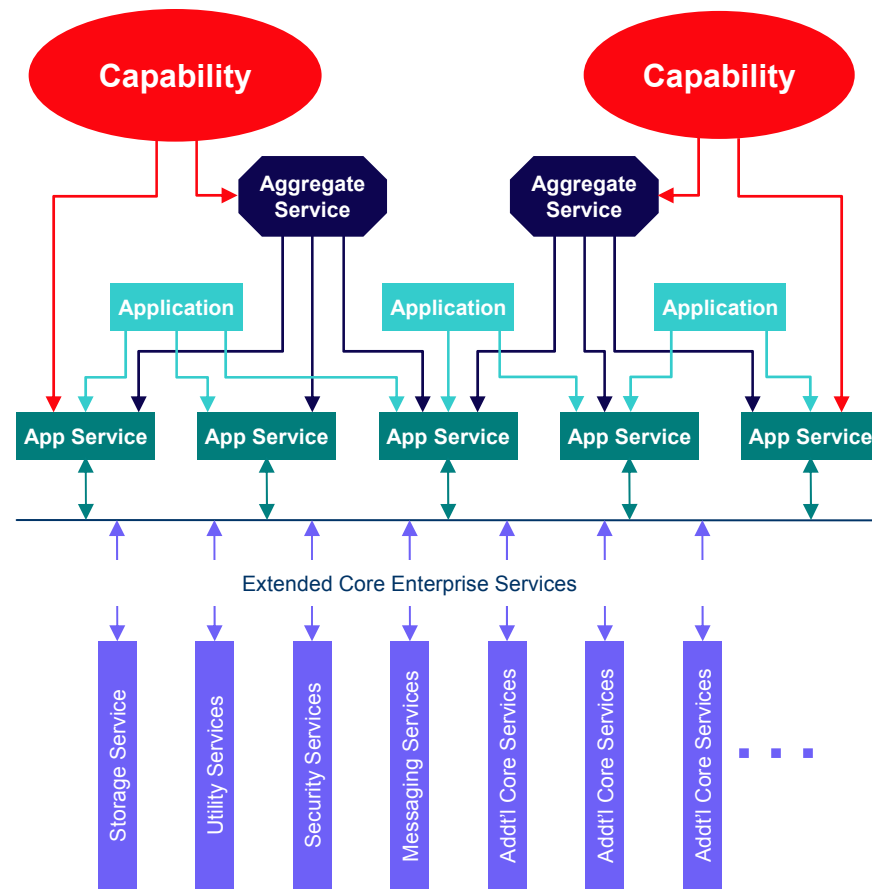
DepSecDef directed establishment of an IT investment fund to accelerate net-centric business transformation & President's Management Agenda: *RAI-NC*

- Rapid Acquisition Incentives – Net Centricity (RAI-NC) will fund promising pilot projects that will:
  - Support advancement of Net-centric tenets & transformation
  - Field business case-driven proof of concept pilot projects
  - Provide pilots that promote interoperability and are capable of being scaled into DoD Enterprise solutions
- Acquisition Spend Analysis Pilot selected as top pilot among 124 submissions.

Principle Tenets

Net Centricity

Extensible   Reuse

President's
Management   Horizontal
Agenda   Technology

Buy-In   DoD
               Business
               Transformation
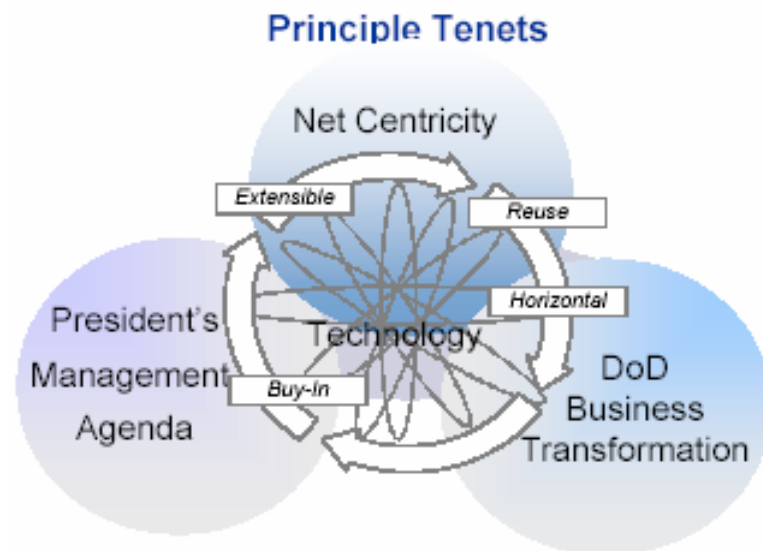
Acquisition Spend Analysis Pilot Introduction

- **Business Problem**
  - The DoD currently has **limited insight** into what it buys and from whom it buys at the enterprise level
  - Each military service and agency procures goods and services across the Department, with **little coordination** between procurement offices that are purchasing the same or similar services
  - Existing spend information resides in numerous **disparate applications** located throughout the Department

- **Acquisition Spend Analysis Pilot Solution Objectives**
  - Develop a net-centric spend analysis capability the can be scalable across the DoD
  - Prove the possibility to reduce the complexity of data integration across the DoD
  - Demonstrate key net-centric attributes by puling data from disparate data sources, mapping and transforming the data to a common model, and producing DoD enterprise spend reports
  - Increase the amount of information and automate the data collection used to support the DoD-Wide Services Sourcing Program
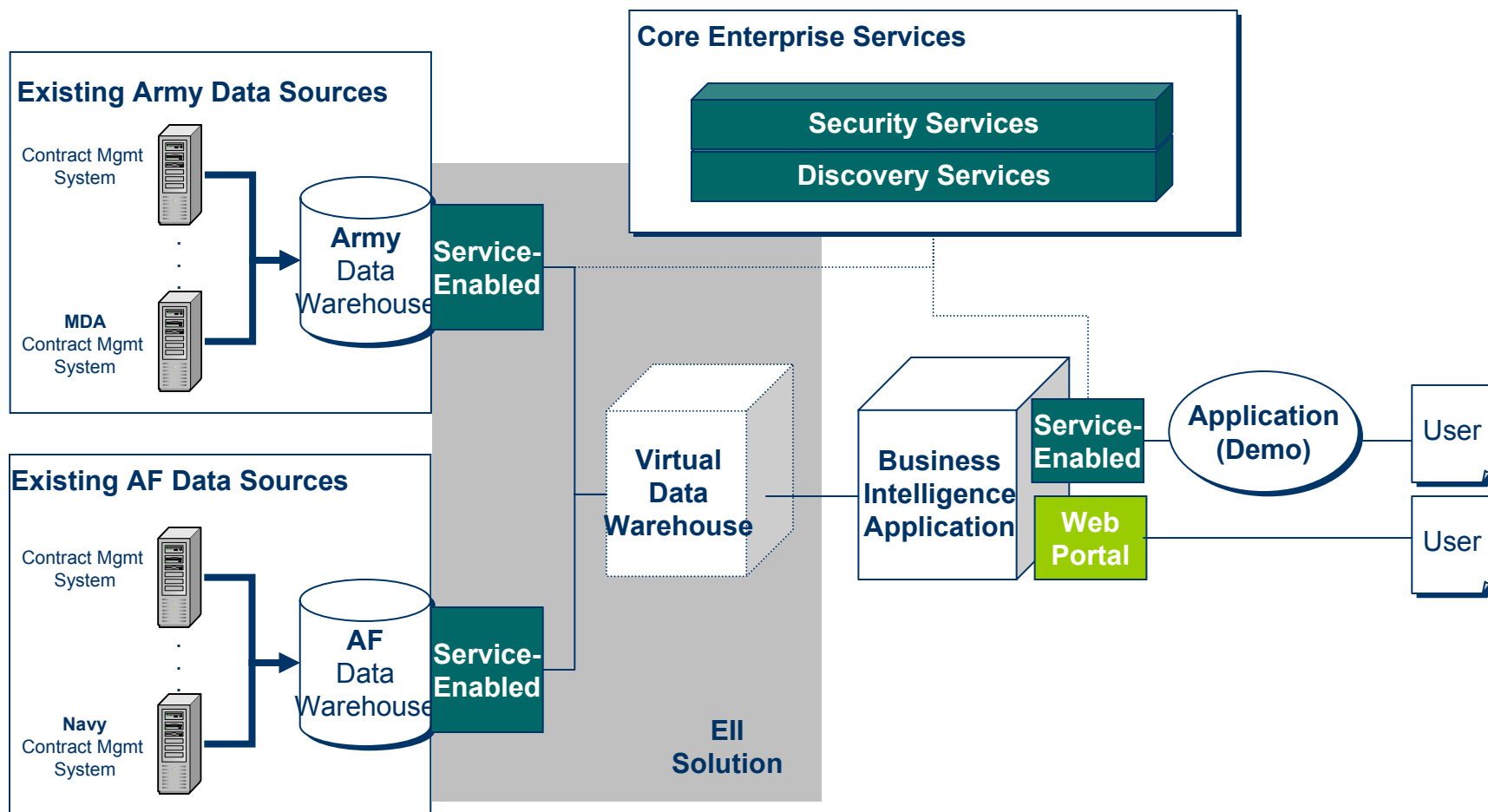
Acquisition Spend Analysis Pilot - Duration and Participants

- Duration
  - The pilot duration is 11 months, ending in November 2004
- Participants

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┌─────────────────────────────────────────────┐
│   Acquisition Governance Board (AGB)          │
│   Chairperson – Ms. Deidre Lee                │
└─────────────────────────────────────────────┘
                       │
┌─────────────────────────────────────────────┐
│   Joint Acquisition E-Business Oversight      │
│   Board (JAEBOB)                              │
│   Chairperson – Mr. Mark Krzysko              │
└─────────────────────────────────────────────┘
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JOINT WORKING GROUP

AT&L, DPAP

Army	Navy	Air Force	MDA
Tom Evans	LCDR Hogenmiller	CAPT David Wilson	Barbara Forcier

Acquisition Spend Analysis Pilot - Architecture

Acquisition Spend Analysis Pilot - Potential Business Value

Potential Return in Terms of Financial value, Strategic Value and Technical Value

Financial Value	Strategic Value	Technical Value
Near-term	**Near-term**	**Near-term**
• Avoid service specific investments in redundant capabilities by creating an enterprise spend intelligence service	• Supports the Acquisition Domain's vision of becoming an innovative and strategic Acquisition enterprise focused on efficient and cost-effective delivery of the best possible capabilities that enable the Warfighter to succeed	• Automate the spend data collection process • Prove *net-centric concepts*
Long-term		**Long-term**
• Improve DoD's ability to achieve socioeconomic goals • Better leverage budgeted dollars available for the procurement of goods and services	• Strengthen cross-Component structures and processes	• Enable a repeatable process with better quality data to serve as foundation for strategic sourcing opportunity identification
	Long-term	• Apply net-centric lessons learned to future Acquisition IT projects
	• Better meet warfighter acquisition needs	• Allow unbiased endorsement of future state architecture
	• Improve vendor / supplier management	
	• Increase acquisition efficiency as a response to a future reduced workforce	

The Following are Key Enterprise IT Components that must be Employed to Demonstrate Net-Centricity

Title	Description	Pilot Metric
Internet Protocol (IP)	Data packets routed across network, not switched via dedicated circuits	System users will be able to "pull" spend data when it is needed, in the form it is needed, via web services technologies
Only handle information once (OHIO)	Data posted by authoritative sources and made visible, available, usable through web services to accelerate decision-making	Pilot will reuse existing data repositories from the Air Force and Army
Post in parallel	Data available on the net as soon as it is created	Data tagged and posted before processing as soon as it is available in the Army and AF data warehouses
Smart pull (vice smart push)	Applications encourage discovery; users can pull spend data directly from the net	Data stored in public space and advertised (tagged) for discovery
Data centric	Data separate from applications; apps talk to each other by posting data	Metadata registered in DoD Metadata Registry
Application diversity	Users can pull multiple apps to access same data or choose same app (e.g., for collaboration)	Apps posted to net and tagged for discovery in multiple applications
Dynamic allocation of access	Trusted accessibility to net resources (data, services, apps, people, collaborative environment, etc.)	Access assured for authorized users; denied for unauthorized users

ASAP-TS will be "pulling" in the following data elements to produce seven pre-defined reports as well as allow ad hoc querying

Contract
Contract Number
Total Contract Obligated Value
Bundled Contract Code (Y/N)
Performance-Based Service Contract (Y/N)
Multiyear Contract (Y/N)
Total Multiyear Value (Enter Whole Dollars Only)
Solicitation Number
Type of Solicitation
Date Solicitation Issued
Requisition/Purchase Number
Funding Appropriation Line
DoD Claimant Program Code
Modification ID
Modification Reason Code
Task/Delivery Order Number
Contract/Order Award Date (effective date)
Contract/Order Release Date (signature date)
Contract Type
Indefinite Delivery Contract Type
Indefinite Delivery Contract Use
Multiple or Single Award Indefinite-Delivery Contract
Indefinite-Delivery Contract Ordering Period Ending Date
Contracting Service/Agency
Contracting Office Code
Contracting Office Name
Contracting Office City
Contracting Office State
Contracting Office Zip
Contracting Officer Name
Requesting Office Code
Requesting Office Name
Requesting Office City
Requesting Office State
Requesting Office Zip

Vendor
Vendor DUNS
Government Agency
CAGE Code
Vendor Name
Vendor Division Name
Vendor City
Vendot State
Vendor Zip Code
Vendor Country
Taxpayer Identification Number
Parent Taxpayer Identification Number
Parent Name
Type of Entity
Women-Owned Business
Ethnic Group
Veteran-Owned Small Business
Subcontracting Plan
Size of Small Business
Contingency, Humanitarian, or Peacekeeping Operation Indicator

Contract Line Item
CLIN Ship To Address (Code Only)
City or Place and State or Country Name
CLIN Payment Will Be Made By (Code Only)
CLIN Number
CLIN: Base or Option Code
CLIN Description
CLIN FSC
CLIN NAICS
CLIN UNSPSC
CLIN Information Technology Products and Services Type
CLIN Part Number
CLIN Quantity
CLIN Unit of Issue
CLIN Unit Price
CLIN Obligated Amount
CLIN Obligation Type (obligation, deobligation, none)
CLIN Performance/Delivery Start
CLIN Performance/Delivery End
CLIN Place of Manufacture

This pilot will produce seven spend analysis reports as well as an ad hoc capability that can be leveraged by strategic sourcing users

The seven spend analysis business reports for evaluating a commodity and its sub-categories are:

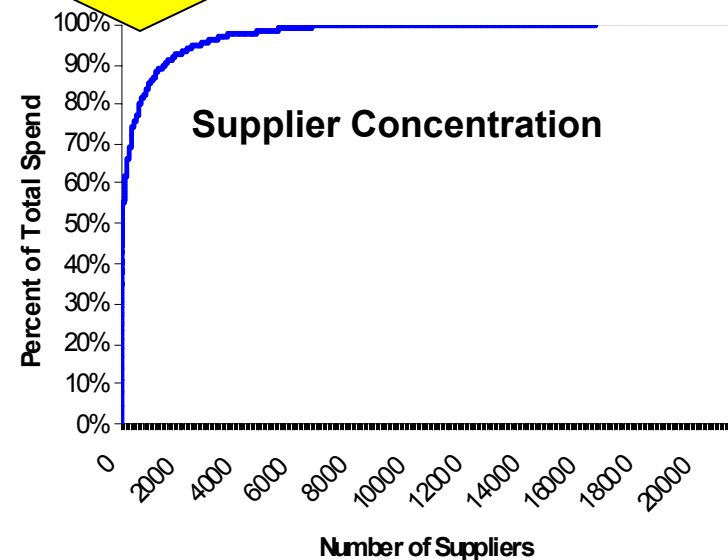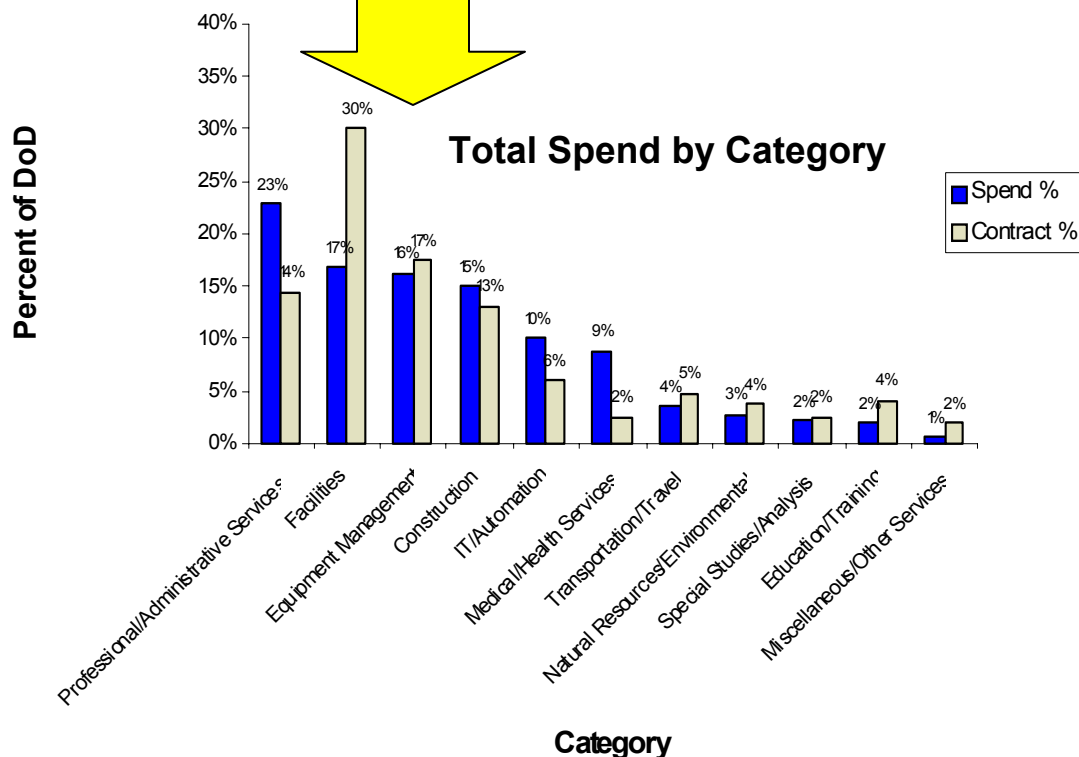| Report Name	Opportunity
Total Spend	The commodities/subcategories with the larger spend may have a greater potential for strategic sourcing
Total Number of Contracts	A larger number of initial awards is indicative of a commodity/sub-category with uncoordinated buying and thus may have a greater potential for strategic sourcing
Average Dollars per Contract	Lower ratios are indicative of uncoordinated buying and therefore may represent the potential for strategic sourcing
Geographical Dispersion	A large number of buying offices for a geographical service area, the greater the potential for strategic sourcing
Supplier Concentration	The higher the number of suppliers within a commodity/sub-category, the greater the supplier fragmentation and, therefore, the greater the potential opportunity for strategic sourcing
Supplier Diversity	The smaller the percentage of dollars associated with small business, the greater the negative impact on diversity goals, and a potential for sourcing
Total Dollars by Supplier	The higher the spend for a given supplier, the greater the potential for strategic sourcing

The spend analysis capability from this technical solution streamlines strategic sourcing opportunity analysis

Based on the data pulled in the aforementioned reports, trending charts can be produced as shown below:

61% of DoD's overall services spend and 47% of contract are concentrated in Facilities, Professional/Administrative Services, and Equipment Management categories

The top 311 suppliers account for approximately 70 percent of overall services spend.

Total Spend by Category

- Spend %
- Contract %

Percent of DoD

Categories (with Spend % / Contract %):
- Professional/Administrative Services: 23% / 14%
- Facilities: 17% / 30%
- Equipment Management: 16% / 17%
- Construction: 15% / 13%
- IT/Automation: 10% / 6%
- Medical/Health Services: 9% / 2%
- Transportation/Travel: 4% / 5%
- Natural Resources/Environmental: 3% / 4%
- Special Studies/Analysis: 2% / 2%
- Education/Training: 2% / 4%
- Miscellaneous/Other Services: 1% / 2%

Category

Supplier Concentration

Percent of Total Spend (0% – 100%)

Number of Suppliers (0 – 20000)

This data was based on DD350 data for FY02, $66 billion on Services was the baseline spend amount.

In conclusion, <u>Enterprise Spend Data</u> underpins key acquisition business strategies including strategic sourcing, purchase volume aggregation, budgeting and planning, performance management, supplier and parts rationalization, compliance and inventory management

- Infrequent and incomplete access to to enterprise spend data results in highly fragmented buying strategies, misguided purchase decisions and missed opportunities for cost savings.
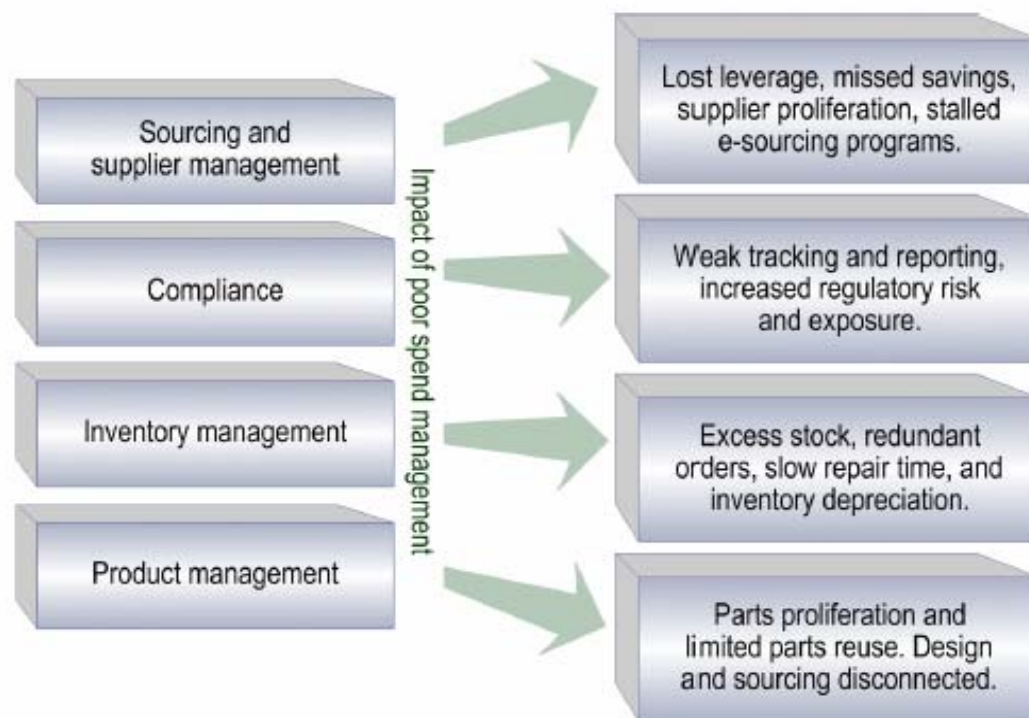
Source: Aberdeen Group, October 2003